

September 5, 2002

Ms. Joan Peterson, Ph.D., Project Officer
Centers for Medicare & Medicaid Services,
Center for Medicaid & State Operations
Family & Children's Health Programs Group, Division of Integrated Health Services
7500 Security Boulevard
Mail Stop S2-01-16
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RE: 11-W-00051/1

Dear Ms. Peterson:

Overview

Vermont is submitting the following waiver amendment to its 1115 demonstration to expand the existing pharmacy component of the Vermont Health Access Plan (VHAP). We were delighted to hear from Peter Shumlin, Chair of the National Legislative Association on Prescription Drug Pricing, that Secretary Thompson reiterated his commitment at the recent meeting in Denver to approve 1115 waivers within a 30-day turnaround following submission. This amendment represents a significant improvement in access to pharmaceutical coverage for many needy Vermonters and we trust that this will be dealt within that timeframe.

The following two amendments are designed to cover:

- Any Medicare or Social Security disability benefits-covered individual with income at or below 400 percent of the Federal Poverty Level without drug coverage, or whose prescription drug coverage has reached its annual benefit limit. This would include coverage for Medicare beneficiaries with incomes between 175 and 225 percent of the FPL, who currently receive a State-only benefit under *VScript Expanded*.
- All other individuals with incomes up to 300 percent of the FPL who do not have an insurance benefit that pays all or a portion of the cost of prescription drugs, exclusive of deductibles, coinsurance or co-payments. This also includes persons whose prescription drug coverage has reached its annual benefit limit.

VHAP was created with the goal of improving the health status and access to care of lower income Vermonters. Since the onset of the demonstration, one of the areas of greatest concern for Vermonters – and the nation at large – has been the ever-rising cost of pharmaceuticals. Federal approval to expand the existing waiver will enhance Vermont's ability to make pharmaceuticals accessible to additional low-income elderly or disabled

individuals. While the State seeks to extend waiver benefits to low-income Vermonters, the State will achieve this objective within existing budget neutrality parameters.

A. Elderly or Disabled Individuals Between 175% and 225% of FPL (VScript Expanded)

Covered Benefits

The current waiver includes pharmacy coverage for Medicare or Social Security disability benefits-covered individuals with incomes at or below 175 percent of the Federal Poverty Level. Vermont currently offers a state-only benefit to Medicare beneficiaries and individuals with disability benefits who have incomes between 175 and 225 percent of the Federal Poverty Level. The State is requesting approval to secure benefits for this group under its 1115 waiver. This program would cover all pharmaceuticals, with enhanced benefits for maintenance drugs.

The specific benefit for this population group is as follows:

Maintenance drugs -

Coverage of drugs used for maintenance purposes with the following cost sharing: \$275 annual deductible, 41% coinsurance once the deductible is met with a \$2,500 annual out-of-pocket maximum (including the deductible), after which coverage is provided without cost sharing.

Acute care drugs -

The discount provided under the Healthy Vermonters program described below will be provided.

Current Vermont legislation limits aggregate state funding for pharmaceutical programs. Federal authority to move the existing state-only program under the 1115 waiver will preserve state funding streams, thereby obviating the need to implement measures in the future to curb program benefits.

B. Healthy Vermonters Program

In addition to inclusion of the current VScript Expanded program under the waiver, the State seeks waiver authority to make pharmaceuticals accessible to other low-income Vermonters. This program is modeled after the CMS-approved Pharmacy Discount Program (PDP) that operated under the VHAP 1115 waiver from January of 2001 to June of 2001. This proposal includes modifications to the original program adopted by the Vermont legislature in 2002 that are described below.

On July 1, Vermont implemented a state-only program called Healthy Vermonters. Under this program, individuals are provided an opportunity to purchase pharmaceuticals at discounted prices. The price used is the Medicaid payment amount. This waiver amendment would improve the current benefit by extending the Medicaid rebate structure.

Beneficiaries will be able to purchase drugs at a price that is equivalent to the price Medicaid pays, net of the manufacturer's rebate and an additional State subsidy. The State seeks federal authority to include Healthy Vermonters under its 1115 waiver.

Covered Benefits and Populations

Any Medicare or Social Security disability benefits-covered individual with income at or below 400 percent of the Federal Poverty Level without drug coverage or whose prescription drug coverage has reached its annual benefit limit would be eligible for the Healthy Vermonters Program. If the individual were eligible for another pharmacy program or traditional Medicaid, the state's eligibility system would make them eligible for one of these programs as his or her circumstances warrants. In addition, the program is available to other individuals with incomes up to 300 percent of the FPL who do not have an insurance benefit that pays all or a portion of the cost of prescription drugs, exclusive of deductibles, coinsurance or co-payments. This includes persons whose prescription drug coverage has reached its annual benefit limit.

Program enrollees will be provided with a benefit that approximates 21.5% of the Medicaid allowed amount as described in the material below.

The significant changes from the previously CMS-authorized PDP program are:

- Medicare beneficiaries are eligible only up to 400% of FPL (PDP covered all Medicare beneficiaries), and would be covered if they have exhausted any supplemental insurance pharmacy benefit.
- Other individuals with incomes at or below 300% of FPL can access the Healthy Vermonters benefit if they have exhausted their private health insurance pharmacy benefit. This provision was added in response to the increasingly common practice by private insurers of capping pharmacy benefits.
- The Vermont Legislature has made an appropriation in the SFY '03 budget to provide a payment of at least 2% of the cost of each prescription toward the benefits provided under this program.
- Program enrollment fees will be "charged" by a slight reduction in the aggregate subsidy.

Program Operation

Healthy Vermonters will operate as follows:

1. For each year, an amount will be established to reflect the expected return to the State under the rebate provisions of OBRA 90. This amount will be set as a percentage of total drug expenditures and will make up the first portion of the program subsidy. To illustrate, the current rebate is estimated to be 20 percent of gross pharmacy expenditures, and thus would be the rebate subsidy amount.

2. The second portion of the subsidy will be funded with State/Federal Medicaid dollars and will be set equal to at least two percent of the Medicaid rate for each script. The two subsidy portions together will represent the total program subsidy to beneficiaries.
3. An annual enrollment fee will be set to cover the administrative costs of the program. However, rather than engage in a costly fee invoicing and collection system, fees will be collected via a reduction in the per-prescription subsidy amount. The State estimates administrative fees to equal one-half of one percent of total prescription costs.
4. The State will enroll and issue an identification card to each person found eligible for the program.
5. When a beneficiary presents his/her card at the pharmacy, the pharmacist will process the beneficiary's claim using the identification card information and the Medicaid Point-of-Sale (POS) pharmacy claim system.
6. The MMIS will verify eligibility, price the script at the Medicaid rate on file, and notify the pharmacist of the results.
7. The pharmacist will charge the beneficiary the Medicaid rate minus the established program subsidy. For example, with the total subsidy set at 21.5 percent, the beneficiary would be charged 78.5 percent of the Medicaid rate.
8. The provider will dispense the drug and the claim will go into the claim system for processing of payment to the pharmacy, which is done weekly for all Medicaid claims.
9. The State will reimburse the provider for the subsidy amount.
10. The State will draw down Federal dollars to cover the Federal component of the State/Federal subsidy.
11. The State will bill the drug manufacturers to collect the rebates quarterly.
12. Rebates collected from manufacturers will be used to pay the rebate portion of the subsidy. Initially, State funds, which the legislature has appropriated, will be used to meet the cash flow needs of the program. State funds will also be used to finance some of the initial administrative expenses of the program.

C. Budget Neutrality

Consistent with the State's request for inclusion of VScript Expanded under the waiver, the State will be able to accommodate inclusion of the Healthy Vermonters program under the waiver with no change to existing budget neutrality requirements.

The State requests that expenditures made by the State under VHAP for the above described services and populations (which are not otherwise included as expenditures under section 1903), shall, for the period of the demonstration, be regarded as expenditures under the State's Title XIX plan.

The Federal portion of the subsidy will count toward overall budget neutrality limits for the VHAP program. Thus, even with the expansion, the Federal expenditures will be capped at a level no higher than they would have been absent the VHAP waiver.

In actuality, Vermont believes that over the long term, State and Federal Medicaid costs will be reduced as a result of these program expansions. By making prescriptions affordable to low income elderly and other persons, the VScript Expanded and Healthy Vermonters pharmacy programs will contribute to improved health status and forestall the need for costly inpatient and long-term care, particularly among the frail elderly.

The attached tables present a summary of expected enrollment and expenditures for these programs. While the tables show new State/Federal dollars being expended, the total amount is still below the overall projected surplus for the VHAP waiver.

In conclusion, we believe our waiver amendments present an opportunity for CMS to assess the drug utilization patterns of consumers and especially the Medicare population using existing Medicaid service delivery systems and administrative structures. The resulting information will be valuable to other states and the Federal government as the country grapples with the issue of pharmacy benefits and costs.

Even though these amendments are submitted together, they can be considered separately for purposes of review and approval. If you have questions, please contact Ann Rugg, Managed Care Senior Administrator, at 802/241-2766. As always, we appreciate your continued assistance in support of our efforts to improve access, service coordination and quality care for our beneficiaries.

Sincerely,

Eileen I. Elliott
Commissioner

CC: M. Jane Kitchel, Secretary, Agency of Human Services
Paul Wallace-Brodeur, Director, OVHA
Ann Rugg, Senior Managed Care Administrator

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**PHARMACY WAIVER AMENDMENT REQUEST
SUPPORTING TABLES**

Table 1 – PROJECTED ENROLLMENT

This table provides an estimate of the number of Vermonters eligible for the Pharmacy Discount Program, and their expected rate of participation.

Table 2 – BENEFIT DESIGN AND COST

This table presents information on the expected per member per month cost of the prescription benefit and the associated State/Federal subsidy.